Substitute Senate Bill 58:
Still the Wrong Energy Efficiency Reform Proposal for Ohio

March 2014

Energy efficiency is a low-cost strategy for controlling consumers' electricity costs and helping to mitigate price volatility in a competitive marketplace where electricity prices are set by auction rather than through regulation.

Third-party studies show that Ohio's current Energy Efficiency Resources Standards ("the Standards") are working as intended. Utilities are achieving the energy-reduction benchmarks and customers are thereby saving money. Independent analysis shows that direct and indirect financial benefits outweigh the cost of the energy efficiency riders and that continued implementation and achievement of the Standards through 2020 could yield total savings in Ohio of almost $5.6 billion – far exceeding estimated program costs of $2.8 billion.[1]

Substitute Senate Bill 58 (Sub. SB 58) proposes to overhaul current state policy on energy efficiency standards, capacity market auctions and utility compensation, as well as advanced and renewable energy standards. The Ohio Manufacturers' Association (OMA) strongly opposes Sub. SB 58 on the grounds that it (a) represents a massive and unjustifiable giveaway to utilities, (b) threatens to wipe out billions of dollars in projected energy savings for Ohio businesses and residents, (c) eliminates important customer protections, and (d) is likely to drive up electricity costs for all customers for many years to come.

Recent Criticism of OMA Analysis Is Flawed and Diversionary

In testimony before the Ohio Senate Public Utilities Committee on February, 18, 2014, Jonathan Lesser of Continental Economics sought to rebut an OMA-commissioned cost-benefit analysis of Ohio's Energy Efficiency Resource Standards. Dr. Lesser's rebuttal contains numerous flaws and oversights that seriously undermine the credibility and validity of his conclusions. As such, his attempt to obscure the fact that Sub. SB 58 represents a massive, unprecedented and unjustifiable giveaway to utilities can only be regarded as a failed diversionary tactic.

Major problems with the Lesser testimony include the following:

- **Dr. Lesser significantly underestimates the price suppression benefits of energy efficiency (i.e., factors that drive down the cost of power), arguing incorrectly that customers will save no more than 37 cents on their monthly electric bills.**
    - Dr. Lesser significantly underestimates achieved energy savings (kWh). He considers only the minimum required savings from each electric utility, and he ignores the fact that three of Ohio's four electric utilities achieved significantly higher levels of energy savings than the benchmark minimum.

[1] "Ohio's Energy Efficiency Resource Standard: Impacts on the Ohio Wholesale Electricity Market and benefits to the State," American Council for and Energy-Efficient Economy, April 2013

- Dr. Lesser significantly underestimates projected lifetime energy savings. It is generally held that energy savings will benefit the market for 5 to 10 years or longer; Dr. Lesser accounts for just a few years, significantly shortchanging the benefits calculation.
- While Dr. Lesser considers wholesale <u>energy</u> price suppression savings in his analysis, he does <u>not</u> include wholesale <u>capacity</u> price suppression savings. OMA-commissioned analysis calculates those "uncounted" capacity market savings to be about $1.32 billion.

- **Dr. Lesser completely ignores the direct benefits of reduced energy consumption and avoided energy purchases (i.e., savings resulting from using less electricity).**
    - While price suppression (lower prices for electricity) is important, the bulk of the financial benefit associated with energy efficiency is through avoided energy purchases. And yet, Dr. Lesser completely ignores this significant financial benefit in his analysis – a benefit the OMA-commissioned study calculated to be about $3.4 billion for Ohio consumers through 2020.

- **Dr. Lesser argues that the energy efficiency program costs will continue to rise over time – completely ignoring the many downward pressures on program costs.**
    - Annual energy efficiency savings benchmarks stay flat through 2018.
    - Utilities will begin receiving PJM capacity auction payments over the next several years, which will mitigate program costs.
    - Three of Ohio's four electric utilities have significant levels of "banked" savings from exceeding their savings benchmarks in the initial years of the program – savings that can be applied to future years' benchmarks, thereby reducing the cost of future compliance.
    - Some technologies actually reduce their cost, on a unitized basis, over time.
    - New energy efficiency technologies/programs may yield savings at a lower cost.

- **Dr. Lesser challenges the OMA-commissioned report's estimation of cost benefits from continued compliance with the Standards on the grounds that a large portion of the price suppression benefits of energy efficiency flow to customers <u>outside</u> Ohio and to customers of Ohio municipal utilities and rural co-ops, which are exempt from the usage reduction requirements. He overlooks several vital points:**
    - The OMA-commissioned cost-benefit analysis limited its summation of benefits to those realized within Ohio and from Ohio-funded components. <u>In other words, 100 percent of the benefits projected in OMA's analysis occur within Ohio</u>.
    - Dr. Lesser overlooks the fact that there are price suppression benefits that accrue to Ohio customers from out-of-state efficiency programs.
    - Dr. Lesser does not consider that many Ohio manufacturers and other businesses have facilities in multiple states and have an interest in reducing electricity costs at all of their facilities.
    - As noted above, Dr. Lesser does not count any achieved (i.e., avoided) energy savings from utilities' energy efficiency programs, significantly underestimating energy savings.
    - As also noted above, nor does Dr. Lesser consider price suppression in the wholesale capacity market.

- **Dr. Lesser argues that as electricity usage is reduced, utilities' fixed capital costs are spread out over fewer and fewer sales, thereby raising the average retail prices – but he ignores both past and projected mitigating factors:**
    - Historically, outside of recession periods, electricity consumption has grown from year to year.
    - The U.S. Energy Information Administration forecasts a 0.6 percent growth rate per year through 2040. This growth will offset Ohio's energy efficiency benchmarks, which means the fixed costs will not be concentrated to the extent Dr. Lesser claims.
    - Dr. Lesser does not take into consideration avoided distribution and transmission investment costs, which typically are considered in studies of the cost-effectiveness of energy efficiency programs.

- **Dr. Lesser argues that as utilities "pick the low-hanging fruit" to satisfy the early usage reduction benchmarks, the cost of future compliance will increase. He fails to consider or acknowledge, however, the many factors that can help reduce the cost of future compliance, such as the following:**
    - New technologies
    - Economies of scale within the programs
    - Increased experience and competition in the energy efficiency market
    - Competitive pressures of the self-direct program or benchmarking program performance

- **Dr. Lesser claims that most of the energy efficiency costs collected from customers are "transferred to businesses that manufacture, sell, and install goods and services that reduce electricity usage."**
    - The incentives are paid to customers who invest in energy- and cost-reducing projects.

Still the Wrong Energy Efficiency Reform Proposal for Ohio

As with any six-year-old law, Ohio's current energy efficiency policy has room for improvement – and the OMA has separately documented specific improvement proposals; however, <u>Sub. SB 58 is the wrong mechanism for achieving that objective</u>.

At its core, Sub. SB 58 is a huge giveaway to electric utility companies. The bill unjustifiably overcompensates utilities, puts billions of dollars of projected savings at risk , eliminates important consumer protections, and is likely to drive electricity costs upward for years to come. In the interest of continued manufacturing competitiveness and consumer protection, the OMA reaffirms its strong opposition to Sub. SB 58.

\# # #